

# County of San Luis Obispo

## Risk Management A Division Of The County Administrative Office

ITS - Health Care FSA

ITS - Dependent Care FSA

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## Top Ten Questions

### What are Flexible Spending Accounts (FSAs)?

A Health Care FSA (HCFSA) pays for the uncovered or unreimbursed portions of qualified medical costs. A Dependent Care FSA (DCFSA) allows you to pay eligible expenses for dependent care with pre-tax dollars. All employee contributions to FSAs are made from pre-tax earnings, thereby increasing your disposable income. There are no employer contributions to the ITS-FSA program. Your ITS-FSA Program is self-administered by the County. By law, retirees are not eligible to maintain FSAs.

If you would like to establish a HCFSA or DCFSA you must do so within 31 days of employment or during Open Enrollment on an annual basis. Account elections will not automatically roll over to future years. An FSA ELECTION IS 100% VOLUNTARY. The ITS-FSA Open Enrollment is held each fall normally from mid-November to the second week of December. Eligible employees may elect up to \$3,000 for a HCFSA and \$5,000 for a DCFSA.

The County of San Luis Obispo ITS-FSA program is a tax-qualified program based on the guidelines in sections 105, 125, and 129 of the Internal Revenue code.

### What types of expenses are eligible for reimbursement?

Your ITS-FSA Plan follows IRS guidelines for what types of expenses may be reimbursed under a Health Care Spending Account and a Dependent Care Spending Account.

#### Eligible HCFSA Expenses:

- Cannot be taken as a deduction from your Federal Income Tax return in any tax year even though they qualify as eligible expenses that could be deducted. You may not take both options. You must either declare them on taxes OR get reimbursed for those expenses through your ITS-FSA
- Are not covered, paid, reimbursed, or reimbursable from any other source
- Do not exceed the amount allotted for your HCFSA for the Plan Year
- Do not include reimbursements for premiums for other health insurance
- While not limited to the dollar amount in your HCFSA at the time a claim is reimbursed, are limited to the total amount you elected (minus any amounts you have been reimbursed for claims submitted earlier in the Plan Year)

For a listing of eligible medical expenses please see [IRS Publication 502](#). **Note: While insurance premiums are included in Publication 502, they are NOT reimbursable expenses for FSA purposes.**

#### Eligible DCFSA Expenses:

- Amounts paid for services--rendered in or outside of your home--for the care of a qualified dependent necessary to allow you and your spouse to work, look for work, or attend school full-time
- Limited to amounts paid for services rendered in your home or amounts paid for services rendered outside of your home for the care of a qualified dependent. The services rendered must be necessary to allow you and your spouse to work, look for work, or attend school full-time
- Limited to the amount in your DCFSA at the time a claim is reimbursed
- Not covered, paid, reimbursed, or reimbursable from any other source

#### **What are the advantages of having an FSA?**

FSAs allow you to make pre-tax salary contributions to pay for qualified medical expenses that are not reimbursed by your insurer or any other source, and to pay dependent care expenses. That helps to make these out-of-pocket expenses more affordable. By reducing taxable income, FSAs actually increase disposable income. The funds put into an FSA are not subject to Federal, State, and FICA taxes. The bottom line is you save 20% to 40% on covered expenses.

#### **What kind of over-the-counter (OTC) medicines or products are eligible for reimbursement through my HCFSAs?**

The IRS has concluded that non-prescription antacids, allergy medicines, pain relievers, cold medicines and other medicines or products purchased to alleviate or treat the personal injuries or sickness of you and/or your dependents are eligible items for reimbursement through a HCFSAs. Vitamins and other dietary supplements that are merely beneficial to you and/or your dependent **remain ineligible** for reimbursement. A more detailed listing of eligible OTC medical supplies is provided in [Appendix A-1](#). Keep in mind that when submitting a claim for OTC medicines and products, a detailed receipt naming the product will be required.

#### **Do I need a claim form and where do I find it?**

Yes. Click on the link to download a claim form. Click here --> [ITS Claim Forms](#)

#### **What supporting documentation do I need to submit with a claim form?**

**Health Care Expenses:** In addition to completing the claim form, the documentation under one of the two items below must be attached:

- **Explanation of Benefits Statement (EOB):** This is the statement you receive each time you, or a health care provider, submit medical, dental, or vision claims for payment to your health, dental, or vision care plan. The EOB will show the amount of expenses paid by the plan and the amount you must pay. For expenses that are partially covered by your (or your dependent's) medical, dental or vision plans, you must attach the EOB.
- **Fully itemized bill(s) or receipts** (including dates of service, name of claimant, type of service, etc.) from a doctor, dentist, pharmacy or other supplier

#### **Dependent Care Expenses:**

- For allowable Dependent Care expenses, attach a copy of the bill or signed receipt. The receipt must show the dates of service and identify who received the care.
- Requests cannot be processed without the Tax ID or SSN for all providers. You must provide this number each time you submit a claim.
- Employees may not submit proof of payment in the form of a cancelled check unless it is accompanied by this other required documentation

### **How long will it take to receive reimbursement?**

When properly completed claims are received in the Auditor's Office by noon Thursday the week before a pay week, every attempt will be made to process claims and issue your reimbursement through the next regular payroll. Any questions you have about claims processing can be addressed to the Payroll Section of the Auditor's Office at 781-5034.

### **If during the year I realize that I have elected too much or too little, can I change my allotment?**

You may not change your election unless you have a Qualified Status Change. See [Appendix A-2](#) for rules on mid-year election changes. After you enroll, a confirmation statement will be Emailed or mailed to you. This statement can be used to ensure that the binding elections you make are the ones you want.

### **What is "use-it-or-lose-it"?**

Use-it-or-lose-it refers to an IRS requirement that if you do not spend all the money you have elected into your HCFSA or DCFSA accounts, that money cannot be rolled over or refunded to you. You can find this requirement in Section 125 of the Internal Revenue Code.

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## **General Questions**

### **What's the difference between a Dependent Care Flexible Spending Account (DCFSA) and a Health Care Flexible Spending Account (HCFSA)?**

A HCFSA pays for the qualified medical expenses **not** covered or reimbursed by your health insurance plan or any other type of insurance.

The other FSA, a DCFSA, pays for childcare or adult dependent care expenses that are necessary to allow you or your spouse to work, look for work, or attend school full-time.

Despite the differences between each account, both accounts allow you to pay for these qualified expenses with pre-tax dollars, money that is deducted from your paycheck before taxes are taken out by your employer - saving you 20% to 40% or more.

### **What is the ITS Tax Free Premium Option?**

If you pay premiums toward the cost of your County sponsored health care coverage you are **automatically** enrolled in the ITS Tax Free Premium feature. The contributions you make toward insurance premiums will be deducted from your pre-tax salary; in other words, deducted before federal, state and Social Security taxes. The net effect will be your "real cost" is lowered by the amount you save in taxes.

### **After contributing to one or both FSA accounts, how can I check my account balance within the Plan Year?**

There are several ways you can check your account:

- You can look in the bottom right corner of your pay stub.
- You can go to Employee Self Service and choose Benefits and Payments from the top blue bar. Choose FSA claims from the choices on the left. The top of the form shows your current balances. Scroll down to see the claims that have been keyed.
- You can call the Auditor's office at 781-5034.

- All claims for the prior plan year must be received in the auditor's Office by 5PM on March 1 following the end of the plan year. Remaining amounts not claimed by March 1 will be forfeited.

#### **When will FSAs be available to me?**

Unless you are a new hire or newly eligible employee, you can only enroll in the County's ITS-FSA Program during the annual Open Enrollment held in the fall of each year, from mid-November to mid-December, and your elections become effective for the next program year. As FSA elections are completely voluntary, you must re-enroll each year.

#### **Will I have a chance to change my elections each year?**

Yes. In fact, you must re-enroll in the FSAs each Plan Year if you wish to maintain a dependent and/or health care account. Elections in FSAs do not carry over from one Plan Year to another. Each Plan Year is separate from every other Plan Year, so you will be given an opportunity each year to make different elections. This applies to which type of FSA you wish to participate in, as well as the dollar amounts you want to set aside in each account.

#### **What is the "Plan Year"?**

Beginning January 1, 2007, the Plan Year will be the calendar year. Any money that you elect to set aside in a flexible spending account for a given Plan Year may be used only for eligible expenses you incur for services received during that Plan Year.

#### **Who is eligible to participate in the ITS-FSA?**

All permanent full-time and part-time County employees working a minimum of 40 hours per pay period are eligible to participate in the ITS Program.

#### **What happens to my ITS account if I terminate employment mid-year?**

You have two options: (1) You can elect to continue participation through COBRA provisions, in which case you would continue to make contributions, but on an after-tax basis. Contact the Benefits Coordinator or the Auditor's Payroll Division for information on COBRA continuation. (2) You can let your ITS participation terminate at the end of your employment. You may continue to file claims only for expenses incurred prior to your termination of participation. Claims must be submitted no later than 60 days after termination of your participation in the plan.

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## **Health Care FSAs**

#### **What is a Health Care FSA?**

Health Care FSAs allow pre-tax reimbursement of eligible medical costs not covered or reimbursed by your insurance plans. Examples include insurance plan deductibles, co-payments and co-insurance, dental, and vision services not covered by your insurance. Insurance premiums are not eligible expenses.

#### **What types of expenses are eligible for reimbursement?**

Your ITS-FSA Plan follows IRS guidelines for what types of expenses may be reimbursed under a Health Care Spending Account.

Eligible HCFSAs Expenses:

- Cannot be taken as a deduction from your Federal Income Tax return in any tax year even though they qualify as eligible expenses that could be deducted. You may not take both options. You must either declare them on taxes OR get reimbursed for those expenses through your ITS-FSA
- Are not covered, paid, reimbursed, or reimbursable from any other source
- Do not exceed the amount allotted for your HCFSAs for the Plan Year
- Do not include reimbursements for premiums for other health insurance
- While not limited to the dollar amount in your HCFSAs at the time a claim is reimbursed, are limited to the total amount you elected (minus any amounts you have been reimbursed for claims submitted earlier in the Plan Year)

For a listing of eligible medical expenses please see [IRS Publication 502](#). **Note: While insurance premiums are included in Publication 502, they are NOT reimbursable expenses for FSA purposes.**

#### **What supporting documentation do I need to submit with a claim form?**

**Health Care Expenses:** In addition to completing the claim form, the documentation under one of the two items below must be attached:

- **Explanation of Benefits Statement (EOB):** This is the statement you receive each time you, or a health care provider, submit medical, dental, or vision claims for payment to your health, dental, or vision care plan. The EOB will show the amount of expenses paid by the plan and the amount you must pay. For expenses that are partially covered by your (or your dependent's) medical, dental or vision plans, you must attach the EOB.
- **Fully itemized bill(s) or receipts** (including dates of service, name of claimant, type of service, etc.) from a doctor, dentist, pharmacy or other supplier

#### **When is an expense incurred?**

Section 125 of the Internal Revenue Code allows reimbursement of *incurred expenses*. An expense is incurred when the services have been provided, not when you are billed or pay for the service (see [Orthodontia](#) for exception).

#### **I am not enrolled in a County sponsored health plan. Am I still eligible to enroll in the County's HCFSAs?**

Yes, the only ITS-FSA eligibility requirement is that you are a permanent employee working a minimum of 40 hours per pay period. Where you purchase your insurance is irrelevant.

#### **What is the maximum amount I can contribute to the HCFSAs?**

For the 2007 Program Year you can contribute a maximum of \$3000 to the HCFSAs.

#### **Can I deduct expenses reimbursed by my Health Care FSA on my tax return as a medical expense?**

No, you cannot because you have already received reimbursement with tax-free dollars through your FSA.

#### **Why should I use an FSA for health care expenses rather than deducting the expenses on my income tax return?**

Only medical expenses that exceed 7.5% of your Adjusted Gross Income (AGI) can be deducted on your Federal Income Tax form. However, FSAs are tax-free from the first dollar. You do not have to meet the 7.5% AGI minimum before receiving the deduction. Further, money set aside through an FSA is also exempt from FICA (social security) taxes and State taxes. This exemption is not available on your Federal Income Tax return. However, you may wish to consult with a tax professional to determine which option is best for you.

#### **Can I receive reimbursement for a claim that exceeds the current amount in my Health Care FSA account?**

For the Health Care FSA, you can receive reimbursement for claims that exceed the current amount in your account, as long as the total doesn't exceed the total amount of your annual election.

**Will the money I elect for the Health Care FSA be paid directly to my doctor?**

No. Payment is made to you.

**Can I pay insurance premiums for my spouse and my children's separate health plan with my HCFSAs?**

No. Insurance premiums may not be paid from monies allotted to a HCFSAs.

**If I didn't use all the money allotted to my HCFSAs during the year, can I get the money refunded to me?**

No. Under the "use it or lose it" rules, money cannot be carried over from one Plan Year to the next or refunded. You will forfeit any money not claimed by March 1 after the end of the Plan Year. This is the major reason employees need to be conservative in their estimate of how much money to allocate to an FSA.

**If my spouse and I each have our own HCFSAs are we restricted to a combined contribution amount of \$3000?**

Unlike Dependent Care FSAs, there is no maximum HCFSAs allotment specified by law. While the maximum permitted under the County's HCFSAs is \$3,000 per covered employee, you or your spouse may have another FSA available through another employer plan or the County. Thus, the aggregate HCFSAs allotments for a working couple may exceed the \$3,000 County HCFSAs maximum per individual employee.

**I have self-only medical coverage. Can I still submit expenses for other members of my family?**

Yes, as long as you are able to claim them as a dependent on your Federal Tax return.

**What kind of over-the-counter (OTC) medicines or products are eligible for reimbursement through my HCFSAs?**

The IRS has concluded that non-prescription antacids, allergy medicines, pain relievers, cold medicines and other medicines or products purchased to alleviate or treat the personal injuries or sickness of you and/or your dependents are eligible items for reimbursement through a HCFSAs. Vitamins and other dietary supplements that are merely beneficial to you and/or your dependent **remain ineligible** for reimbursement. A more detailed listing of eligible OTC medical supplies is provided in [Appendix A-1](#). Keep in mind that when submitting a claim for OTC medicines and products, a detailed receipt naming the product will be required.

**Some OTC drugs can be used either for medical purposes or for general health/cosmetic purposes. Are these dual-purpose items reimbursable?**

Any claim for a dual-purpose item must be accompanied by additional supporting documentation from a licensed medical practitioner. This documentation must:

- Be on the licensed medical practitioner's letterhead or prescription form
- Be dated within the current Plan Year
- Include a diagnosis (that is, the specific medical condition being treated)
- Indicate that the item being purchased will directly impact this medical condition
- Include the licensed medical practitioner's signature
- If the treatment could be for cosmetic purposes, specifically state that the treatment is not cosmetic in nature
- Be included each time a claim is submitted

**Am I able to claim OTC medications for income tax purposes if I choose not to participate in the HCFSAs?**

No, the IRS has ruled this benefit applies solely to flexible spending accounts and non-prescription items continue to be non-deductible on your income tax.



### **How does reimbursement for Orthodontia work?**

You incur the expense for braces when you pay, so save your receipts. You'll be able to submit a claim for expenses you pay during the current Plan Year, even if the actual braces were put on in a different Plan Year in which you were participating in the HCFSAs.

### **My child is getting braces. How does this work with the "expense incurred during the Plan Year" since I'll be paying for this over the next X number of years?**

You incur the expense for braces when you pay, so save your receipts. You'll be able to submit a claim for expenses you pay during the current Plan Year, even if the actual braces were put on before the current Plan Year. Initial payments for orthodontia expenses can be reimbursed with a paid receipt. However, down payments for orthodontia expenses cannot be reimbursed and you cannot be reimbursed for any work completed prior to your effective date in the plan.

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## **Dependent Care FSAs**

### **What is a Dependent Care FSA?**

- A DCFSAs allows you to be reimbursed on a pre-tax basis for childcare or adult dependent care expenses for qualified dependents that are necessary to allow you or your spouse to work, look for work, or attend school full-time.
- Can be used to reimburse you with pre-tax dollars if the expenses for dependents meet the IRS definition of dependent for income tax purposes. An adult (e.g., parent, grandparent, adult disabled child) may qualify as a dependent if the employee is providing more than half of that person's maintenance for the year.
- Limits the annual maximum allotment by law to \$5,000 per year, \$2,500, if married filing a separate return. If you are married, the \$5,000 limit must be observed by you and your spouse where both individuals have access to an FSA and/or a childcare subsidy.

### **What is an eligible dependent care expense?**

Eligible DCFSAs Expenses are:

- amounts paid for services--rendered in or outside of your home--for the care of a qualified dependent necessary to allow you and your spouse to work, look for work, or attend school full-time
- limited to amounts paid for services rendered in your home or amounts paid for services rendered outside of your home for the care of a qualified dependent. The services rendered must be necessary to allow you and your spouse to work, look for work, or attend school full-time
- limited to the amount in your DCFSAs at the time a claim is reimbursed
- not covered, paid, reimbursed, or reimbursable from any other source

### **My spouse has an FSA program at work too. Can I still contribute the full \$5000 to the DCFSAs even if my spouse is contributing at his/her workplace?**

The total that can be elected for a Dependent Care FSA must not exceed \$5,000 per household (\$2,500 each if married and filing separately) in accordance with IRS rules. Therefore, you must ensure that you and your spouse limit your individual elections to total no more than \$5000 combined.

### **Who is a qualifying dependent for a DCFSAs?**

A qualifying dependent is a:

- Dependent of the enrolled employee who is under age 13; or
- Dependent or spouse of the enrolled employee who is mentally or physically incapable of caring for himself or herself, and who the employee claims as a dependent on his or her Federal Income Tax return.

To claim dependent care expenses, you must meet the following conditions:

- You must have incurred the expenses in order for you and your spouse to work or look for work unless your spouse was either a full-time student or was physically or mentally incapable of self-care.
- The payments for care cannot be paid to someone you can claim as your dependent on your return or to your child who is under age 19.
- Your filing status must be single, head of household, qualifying widow(er) with a dependent child, married filing jointly, or married filing separately.
- The care must have been provided for one or more qualifying persons identified on the form you use to claim the credit.
- You (and, if you're married, your spouse) must maintain a home that you live in with your qualifying child or dependent.

#### **Can I be reimbursed for dependent daycare expenses once I have paid for them?**

Section 125 of the Internal Revenue Code allows reimbursement of *incurred expenses*. An expense is incurred when the services have been provided, not when you are billed or pay for the service. This means, if you file a claim for January's dependent care expenses, all of January's services must have occurred prior to submitting the claim.

#### **Can I use a Dependent Care FSA to pay for a babysitter in my home rather than using a daycare facility?**

Yes. You can include expenses paid to a babysitter if the services are necessary in order for you and your spouse, if married, to work, look for work, or for your spouse to attend school full-time.

#### **My under-age-13 child goes to private school. Are tuition payments qualified childcare?**

No. School tuition is not childcare. But before/after school care is a qualified expense. Your provider may be required to itemize the costs between tuition and before/after school care.

#### **Can I receive reimbursement for a claim that exceeds the current amount in my DCFSA?**

For the Dependent Care FSA, you can only receive reimbursement up to the current amount in your account at the time your claim is processed.

#### **If during the year I realize that I have elected too much or too little, can I change my allotment?**

You may not change your election unless you have a Qualified Status Change. See [Appendix A-2](#) for rules on mid-year election changes. After you enroll, a confirmation statement will be Emailed or mailed to you. This statement can be used to ensure that the binding elections you make are the ones you want.

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## **Contacts**

**ITS Program Administrator** – Glenn Estrada, Risk Management, 781-5012.

**ITS Claims Processing** – Shari LaPalm, Auditor-Controller, 781-5034.

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## APPENDIX A-1

### ITS HEALTH CARE SPENDING ACCOUNT OVER THE COUNTER (OTC) MEDICAL EXPENSES

#### Documentation

Reimbursement of OTC medical expenses requires the same documentation as other eligible medical expenses:

- ▶ Cash register receipts are acceptable, but they must contain the date, dollar amount and *specific name* of the item in order to be considered for reimbursement.
- ▶ No miscellaneous (i.e., pharmacy, Target) receipts will be accepted even if accompanied by a box-top or label.

#### Eligible OTC Expenses

- Analgesics (muscle/joint pain relievers such as Ben-Gay)
- Antacids
- Anti-diarrhea medicines
- Allergy medications
- Bug bite medications
- Calamine lotion
- Cold medicines
- Contact lens solution and other eye products such as Visine
- Cough drops, throat lozenges, etc.
- Diaper rash ointments
- First-aid creams and ointments
- Hemorrhoid creams & suppositories
- Laxatives
- Menstrual cycle products for pain and cramp relief
- Motion sickness pills
- Pain relievers
- Pedialyte for sick child
- Sinus medications, including nasal sprays
- Sleeping aids
- Smoking cessation products, including nicotine gum & patches
- Wart removal treatments
- Non-medicines (band aids, bandages, gauze pads, first aid kits, cold-hot packs for injuries, rubbing alcohol, liquid adhesive for small cuts, reading glasses, contact lens cleaning solution, carpal tunnel wrist supports, pregnancy test kits, condoms, spermicidal foam, thermometers, incontinence supplies, nasal strips, etc.)

NOTE: The above items are only eligible in reasonable quantities. While the Internal Revenue Code does not give a specific definition of reasonable, a 2-bottle limit per claim will be applied to the County's program.

#### Ineligible OTC Items

- Chapstick & lip balms
- Cosmetics
- Medicated shampoos & soaps
- Moisturizers and face creams
- Special food and food replacements
- Suntan lotion
- Toiletries
- Toothpaste & toothbrushes, regardless of whether recommended by a dentist
- Vitamins and nutritional supplements, one-a-day

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## APPENDIX A-2

### MID-YEAR ELECTION CHANGES

The Internal Revenue Code will not permit changes outside the Open Enrollment period unless you have a change in family status or significant cost changes. A "change in family status and significant cost changes " as defined by the County Plan includes:

- Marriage, divorce, death of spouse, legal separation and annulment;
- Birth, adoption, placement for adoption, and death;
- Termination or commencement of employment, strike or lockout, commencement or return from unpaid leave, and/or change in work site for the employee, spouse or dependent;
- A change in employment status that affects eligibility under an employer plan;
- Dependent satisfies or ceases to satisfy eligibility requirements (gain or loss of student status, reaches the limiting age for benefits or any similar circumstance);
- Significant Cost Changes: increases or decreases in costs during the Plan year that affect the amount of dependent care expenses. **Health Care Spending Accounts are excluded from this section.**

When a change in family status occurs, you may stop or change the amount of your contributions to the Program. The changes you make must be consistent with the change in your family status and must be within 31 days of the date the event (marriage, birth, etc.) occurs.

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